Are you ready for the upcoming margin rules?

ISDA Amend webcast
August 11th 2016
Speakers

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Agenda

• Margin Regulations for Uncleared Derivatives
  > Self-Disclosure Letter
  > Variation Margin

• ISDA Resolution Stay Jurisdictional Modular Protocol (ISDA JMP)

• Q&A
Margin Regulations for Uncleared Derivatives
Margin Regulations for Uncleared Derivatives

- Margin regulations for uncleared derivatives have been adopted in the United States, Canada and Japan. The general market compliance date for the variation margin ("VM") requirements of such regulations is March 1, 2017. The initial margin ("IM") requirements of the margin regulations for uncleared derivatives will phase-in over time.

- The adoption of European and Swiss margin regulations for uncleared derivatives have been delayed, but are currently expected to have a similar compliance date.

- Compliance with the relevant margin regulations will, in many cases, require parties to update their existing ISDA collateral documentation or put in place new ISDA collateral documentation.

- ISDA is also developing industry tools for market participants to use when updating their documentation in response to the margin regulations for uncleared derivatives. These tools will be available on ISDA Amend.
Putting in Place Margin Regulation Compliant Documentation

In order for a party to determine what needs to be done to become margin regulation compliant with a particular counterparty from a documentation perspective, it must undertake the following two-step process:

- **Step 1:** Identify and classify each counterparty to determine if and when the relevant margin regulations will be applicable to the trading relationship between the parties.
  
  ISDA Tool Available: ISDA Regulatory Margin Self-Disclosure Letter (“SDL”)

- **Step 2:** Based on such identification/classification, devise a plan to put in place appropriate margin regulation compliant documentation.


Margin Regulations for Uncleared Derivatives: Self-Disclosure Letter
Regulatory Margin Self-Disclosure Letter

• ISDA published the SDL on June 30, 2016. The ISDA Amend build is ongoing.

• In almost all cases, market participants will need to know certain information about their counterparties to determine if, and when, their trading relationship will become subject to regulatory margin requirements for uncleared swaps. The SDL will allow market participants to disclose the following information to each other:

  - General Biographical Information (e.g., entity identifier).

  - Entity status under applicable margin regulations (e.g., “financial end-user,” “NFC+,” etc.) and whether an exemption is available.

  - Cross-border status under the applicable margin regulations (e.g., “U.S. person,” “third-country entity,” etc.).

  - Whether relevant notional thresholds are crossed in a particular year for purposes of determining phase-ins. This is an annual requirement.

  - Threshold tracking will need to be done on a group/affiliated basis due to aggregation requirements. Meaning firms will need to provide information about their group structure (e.g., by providing their ultimate parent’s entity identifier).
Regulatory Margin Self-Disclosure Letter

- The SDL has been designed to include embedded logic to allow market participants to answer the fewest number of questions but still provide counterparties with the information necessary to determine if, and when, their trading relationship will become subject to regulatory margin requirements for uncleared swaps.

- The SDL is being structured in a modular fashion, so that market participants can choose only to complete those "modules" that they are required/willing to complete.

- On ISDA Amend, swap dealers will have the opportunity to advise their counterparties which of the modules they will need to receive in order to make the necessary regulatory determinations.

- ISDA Amend will assist market participants with the exchange of a large amount of data.
Regulatory Margin Self-Disclosure Letter

Biographical Information

- Canada
  - Canada Entity / Cross-border Status
  - AANA
- E.U.
  - E.U Entity / Cross-border Status
  - AANA
- U.S.
  - AANA
- Japan
  - Japan Entity / Cross-border Status
  - AANA
- Switzerland
  - Switzerland Entity / Cross-border Status
  - AANA
- P.R.
  - P.R. Entity / Cross-border Status
  - Hedging Exemption
  - AANA
- CFTC
  - CFTC Entity / Cross-border Status
  - AANA
Self-Disclosure Letter (SDL) Process Flow

Required Jurisdiction Information
Entity Status Information
Relationship Answer Set
Authorised Signatures
Permission Counterparty
Sign and Share
Summary Review

Sell-side
Buy-side

Add Jurisdictional Letter Requirement
Create and Answer Self-Disclosure Letter
Review Answer Set
Permission Counterparty
Sign and Distribute Self-Disclosure Letters
Review Submissions

Buy-side/Sell-side

Jurisdictions Required
Self-Disclosure Letter (SDL) Dashboard
Add Signatory & Share

The following SDL module will be shared for those self-disclosure letters where they are relevant if you do not wish to share any of these modules, then please exclude the modules.

 Jurisdictions Required

Add Signatory & Share

The Information provided in this Letter is to the best of Principal’s knowledge and belief as correct of the date of completion of this Regulatory Module. Self-Disclosure Letters are information other than answers provided in Section Canada A650, Threshold Estimate, EU A650, Threshold Estimate, Japan A650, Threshold Estimate, Intellectual Property A650, Threshold Estimate and US A650 Threshold Estimate. Principal agrees to promptly provide updates if any such information changes in any material respect.
Jurisdictions Required: Sell-side defines required data by sell-side entity

1. Dashboard on Jurisdictional requirements (Dealers)
2. Custom filter by jurisdiction
3. Data information display
**Entity Specific Data: General regulatory information**

### General Entity Information
- **Entity:** SSgA Luxemburg Company
- **MB:** DCGT453109
- **LEI:** DF0023F5626GH25N760
- **Client Identifier:** GTBTF

### Entity Status Details
- **Jurisdictions Available:** 5

### Registration Information

<table>
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<th>Field</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Address</td>
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<tr>
<td>Address</td>
<td>[Blank]</td>
</tr>
<tr>
<td>Second Address</td>
<td>[Blank]</td>
</tr>
<tr>
<td>City/Town</td>
<td>[Blank]</td>
</tr>
<tr>
<td>State/Region</td>
<td>[Blank]</td>
</tr>
<tr>
<td>Post Code/ZIP</td>
<td>[Blank]</td>
</tr>
<tr>
<td>Country</td>
<td>[Blank]</td>
</tr>
</tbody>
</table>

**Multi-Branch Entity Information**
- **Is the principal a multi-branch entity?** Yes

**Contact Information**
- **Name**
- **Email**
- **Phone**

1. General entity information
2. Entity status details
3. 5 available jurisdictions
Add Questionnaire: Create a questionnaire for each relationship, one or many

1. Add multiple questionnaires
2. Select jurisdiction
3. Applicable relationship answer sets
1. Filter options
2. Manage questionnaire sets
Authorized Signatory

1. Library of authorized signatures
2. Apply signatures to specific entities
3. Applicable entity selections for signature designation
Assign Questionnaire to the Relationships, Sign and Share

1. Select permissioned Dealers
2. Sign and share with selected relationships
Dashboards: SDL Producer (Buy-side)

1. Dashboard (Producer view)
2. Custom filter on require jurisdiction
3. Data can be exported to Excel
### Dashboards: SDL Receiver (Sell-side)

**1. Dashboard (Receiver view)**

**2. Custom filter on institution, jurisdiction and status**

**3. Data information display on:**
- Requested by Counterparties
- Received
Margin Regulations for Uncleared Derivatives: Variation Margin Protocol
ISDA Variation Margin Protocol

- ISDA expects to publish the VM Protocol soon. The ISDA Amend build has begun.
- Market participants will have the ability to amend existing ISDA collateral documentation, enter into new ISDA collateral documentation or enter into a 2002 ISDA Master Agreement via the VM Protocol.
- The VM Protocol is designed to provide market participants with an efficient means of updating their collateral documentation to comply with the VM requirements of the margin regulations for uncleared derivatives in the United States, Canada and Japan.
- The VM Protocol has also been designed so that it may be supplemented to allow market participants to agree to further updates to their collateral documentation to comply with margin regulations for uncleared derivatives in Europe and Switzerland.
- The VM Protocol does not address IM requirements under the regulations.
ISDA Variation Margin Protocol

- The VM Protocol is a Questionnaire style protocol.
- In order for any pair of market participants to update their documents using the VM Protocol, the following must occur:
  - First, each market participant must have delivered an adherence letter to ISDA in the manner prescribed in the VM Protocol.
  - Second, the pair must have exchanged Questionnaires in the manner prescribed in the VM Protocol AND have satisfied the relevant conditions precedent to effectiveness specified in the Protocol Agreement. One such condition precedent is that the pair of market participants must have agreed the “Method” by which they will upgrade their ISDA documentation in their Questionnaires.
Questionnaire Matching

• Protocol Questionnaires contain elections that allow protocol participants to customize their agreements with other protocol participants with whom they exchange Questionnaires.

• Matching occurs through the exchange of Questionnaires.

• Questionnaire matching increases the functionality of an ISDA Protocol, but it also increases its complexity.

• The VM Protocol contains different types of matching elections, which produce different results.
Questionnaire Matching

• Generally matching elections in the VM Protocol fall within one of the following three categories:
  > “Condition Precedent Matching”
  > “Additive Matching”
  > “Matching with fallbacks”

• The VM Protocol is the first ISDA protocol with a Questionnaire that contains Condition Precedent and Additive Matching elections.

• If protocol participants fail to match on all required conditions precedent, either or both of such parties may amend and redeliver their Questionnaires until they match on all required conditions precedent.
## Examples of Questionnaire Matching

<table>
<thead>
<tr>
<th>Election</th>
<th>Party A’s Questionnaire</th>
<th>Party B’s Questionnaire</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method</td>
<td>Amend</td>
<td>Replicate and Amend</td>
<td>The VM Protocol will not be effective between the parties until they agree on a Method. [This is an example of Condition Precedent Matching.]</td>
</tr>
<tr>
<td>Covered Margin Regime</td>
<td>OSFI and PR</td>
<td>CFTC and Japan</td>
<td>OSFI, PR, CFTC and Japan [This is an example of Additive Matching.]</td>
</tr>
<tr>
<td>Product Set</td>
<td>Broad</td>
<td>Narrow</td>
<td>Narrow [This is an example of Matching with Fallbacks, Narrow is the fallback.]</td>
</tr>
<tr>
<td>Notification Time – New York Law CSAs</td>
<td>1pm Hong Kong Time</td>
<td>1pm New York Time</td>
<td>10:00am New York Time [This is an example of Matching with Fallbacks, 10:00am New York Time is the fallback.]</td>
</tr>
</tbody>
</table>
ISDA Amend

- Protocol questionnaires may be, and are predominantly, exchanged via ISDA Amend. There are over 60,000 LEIs on ISDA Amend.
- The development of the ISDA Amend offering for the VM Protocol is expected to allow market participants to:
  > Customize their Questionnaires on a counterparty by counterparty basis;
  > Identify failures to match on Condition Precedent Matching elections;
  > Download their matching election results; and
  > Manage the inflow of information, including ongoing updates thereto.
- ISDA Amend is a powerful tool to assist market participants with the exchange and reconciliation of a massive amount of data.
Variation Margin Protocol Process Flow

Create Questionnaire
Apply Signatory & Submit
Resolve Conflicting Elections
Finalise Matched Questionnaire
Variation Margin Dashboard

1. Dashboard metrics
   - Counterparty matches
   - Questionnaire status
   - Pending queue

2. Custom filter on matches
   - Counterparty relationships
   - CSA Methods
   - Match status
Variation Margin Dashboard: Monitoring Conflicting Elections

1. Relationship matches overview
2. Match exception details can be extracted to Excel
ISDA Resolution Stay Jurisdictional Modular Protocol (ISDA JMP)
ISDA JMP – Background

• The Financial crisis of 2008

  > Financial regulators and market participants to focus on new approaches to the failure of systemically important financial institutions (“SIFIs”)

  > New “special resolution regimes” (“SRRs”) developed (e.g. BRRD)

  > OTC swaps exercising close-out rights and cross-default rights

    – SRRs generally stay exercise of direct defaults and cross defaults in a resolution

    – Enforceability of such stays in foreign jurisdictions is not certain

• In 2013, the regulatory authorities from a number of FSB jurisdictions requested that ISDA revise standard ISDA Master Agreement documentation to eliminate close-out rights triggered by the resolution of a SIFI. ISDA developed the ISDA 2014 Resolution Stay Protocol – launched November 2014. In 2014, the regulatory authorities asked ISDA to expand the coverage to cover other major SFT agreements they considered to be most relevant at this stage – SFT Annex
ISDA JMP – Background

• New regulations are now being implemented which generally require institutions to obtain the consent of their counterparties to be subject to stays on or overrides of certain termination rights under home-country SRRs (Stay Regulations)

• ISDA developed the ISDA Jurisdictional Modular Protocol (ISDA JMP) to facilitate compliance with Stay Regulations in various jurisdictions under an umbrella structure

• ISDA JMP aims to comply with the express requirements of these Stay Regulations without “over complying” (other than in limited agreed circumstances)

• ISDA published the ISDA JMP on May 3, 2016
ISDA JMP – Structure

ISDA Jurisdictional Modular Protocol Boilerplate

UK (PRA Rule) Jurisdictional Module

Other Jurisdictional Modules

Applicable to all Adhering Parties

Elected by Adhering Parties who choose to apply terms of such Jurisdictional Module
ISDA JMP – Key Terms

• Options for adherence may differ depending on Stay Regulations

• An entity may adhere to a particular Jurisdictional Module as:
  > A “Regulated Entity”;
  > A “Module Adhering Party” or
  > Both

• Regulated Entities are those parties that are required by Stay Regulation to obtain opt-ins from their counterparties

• Module Adhering Parties are those parties opting-in to the SRRs applicable to Regulated Entities

• A Regulated Entity Counterparty is a Regulated Entity that a Module Adhering Party chooses to amend its Covered Agreements with
ISDA JMP – Module Adhering Party Elections

• Each Module Adhering Party can choose between three options for identifying the Regulated Entities that it will amend its contracts with (unless otherwise required by the relevant Stay Regulation). These options are:

  > All present and future Regulated Entities; or

  > All Regulated Entities that are members of a G-SIB and/or

  > One or more specific Regulated Entities (i.e. dealer-by-dealer)

• Module Adhering Parties that choose to adhere to one or more specific Regulated Entities must notify such Regulated Entities in order for their adherence to be effective, either through:

  > A bilateral notice or

  > ISDA Amend
ISDA JMP – Agency Adherence

• In its Adherence Letter for a Jurisdictional Module, a party can elect to adhere:
  > As a principal;
  > As an agent on behalf of all of the principals that it represents; or
  > As an agent on behalf of some, but not all, of the principals that it represents

• If adhering on behalf of some, but not all, principals, an agent must provide its counterparties with a list of applicable principals either through:
  > A bilateral notice or
  > ISDA Amend
ISDA JMP – ISDA Amend

• Allows Adhering Parties to the ISDA JMP to make entity-by-entity elections and exchange adherence information
• Extracts Adhering Party capacity (e.g. Regulated Entity or Module Adhering Party) and elections from ISDA JMP Adherence Letter
• Auto-matches Module Adhering Parties that choose to adhere to “All Regulated Entities” or “All G-SIBs”
• Facilitates Module Adhering Parties’ ability to select Regulated Entities on an entity-by-entity basis and send notices to such entities
• Facilitates exchange of relevant underlying fund information
• Allows for batch upload and download
ISDA JMP – Jurisdictional Modules

• An Adhering Party may choose which Jurisdictional Modules to adhere to
• Status of modules:
  > ISDA published the UK (PRA Rule) Jurisdictional Module on May 3, 2016
  > ISDA published the German Jurisdictional Module on June 28, 2016
• Regulations and future modules
1. Dedicated ISDA jurisdictional chevron
2. Select specific regime & add adherence letter ID, ie PR_2016_XX_XXXXX
3. Pre-populated adherence letter elections from ISDA’s website
Permission Existing or New Relationships

4. Counterparty relationship (Auto selections, Dealer by Dealer)
Summary of Counterparty Elections and Relationships

1. Criteria filters
2. Summary of elections and relationship details
ISDA Amend 2.0
Benefits of using ISDA Amend

• Central data management and distribution

• Full audit trail of activity

• Leverage existing client relationships

• Simplify the adherence process and automate the consumption of data

• Bulk uploads and downloads

• Real-time updates and dashboard metrics

• API availability for direct data access

• User guide translations: Chinese, French, Japanese and Spanish
Future ISDA Amend 2.0 initiatives

- ISDA Amend capability to create electronic CSA documents
- Self Disclosure Letter for other G20 Jurisdictions
  - Australia, Hong Kong, India, Singapore and potential other jurisdictions
- Hong Kong Mandatory Clearing
- Singapore Mandatory Clearing
- Jurisdictional Module
  - US, Japan and potential other jurisdictions

Other initiatives in Markit Counterparty Manager

- Negotiate and amend CSAs on the platform via SmartDX
Estimated timelines
ISDA 2.0 Estimated Timeline

Key Documentation / Testing Dates

- **Aug 5 2016**: SDL Report Formats, API Specification Published
- **Aug 26 2016**: VM Protocol Report Formats Published
- **Sept 2016**: VM Protocol API Specification Published
- **Oct 2016**: API Testing Open: SDL, VM Protocol
Next step: Contact us to learn more

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MCPMsupport@markit.com

Or contact your IHS Markit sales representative
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